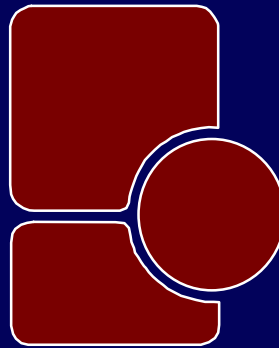


**Joint Legislative Audit and Review Commission
of the Virginia General Assembly**



**Review of Spending
in State Government**

**Staff Briefing
September 10, 2001**

Introduction

2

Staff for this study:

Kirk Jonas, Division Chief

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Presentation Outline

3



Study Mandates



Budget Growth in Virginia



Case Studies



Performance Measurement in Budgeting

Study Mandate

4

- **HJR 773 and HB 2865 (both from 2001) direct JLARC to review State spending and identify:**
 - The largest and fastest growing programs,
 - The causes of expenditure growth,
 - Programs that may be indistinct or inefficient, and
 - Programs that could be consolidated.

- **HJR 733 also calls for:**
 - An assessment of the use of performance budgeting and measurement in legislative budgeting, and
 - An analysis of the use of State funds by private organizations. (deferred until 2002)

Presentation Outline

5

- ☐ Study Mandates
- ☒ Budget Growth in Virginia
- ☐ Case Studies
- ☐ Performance Measurement in Budgeting

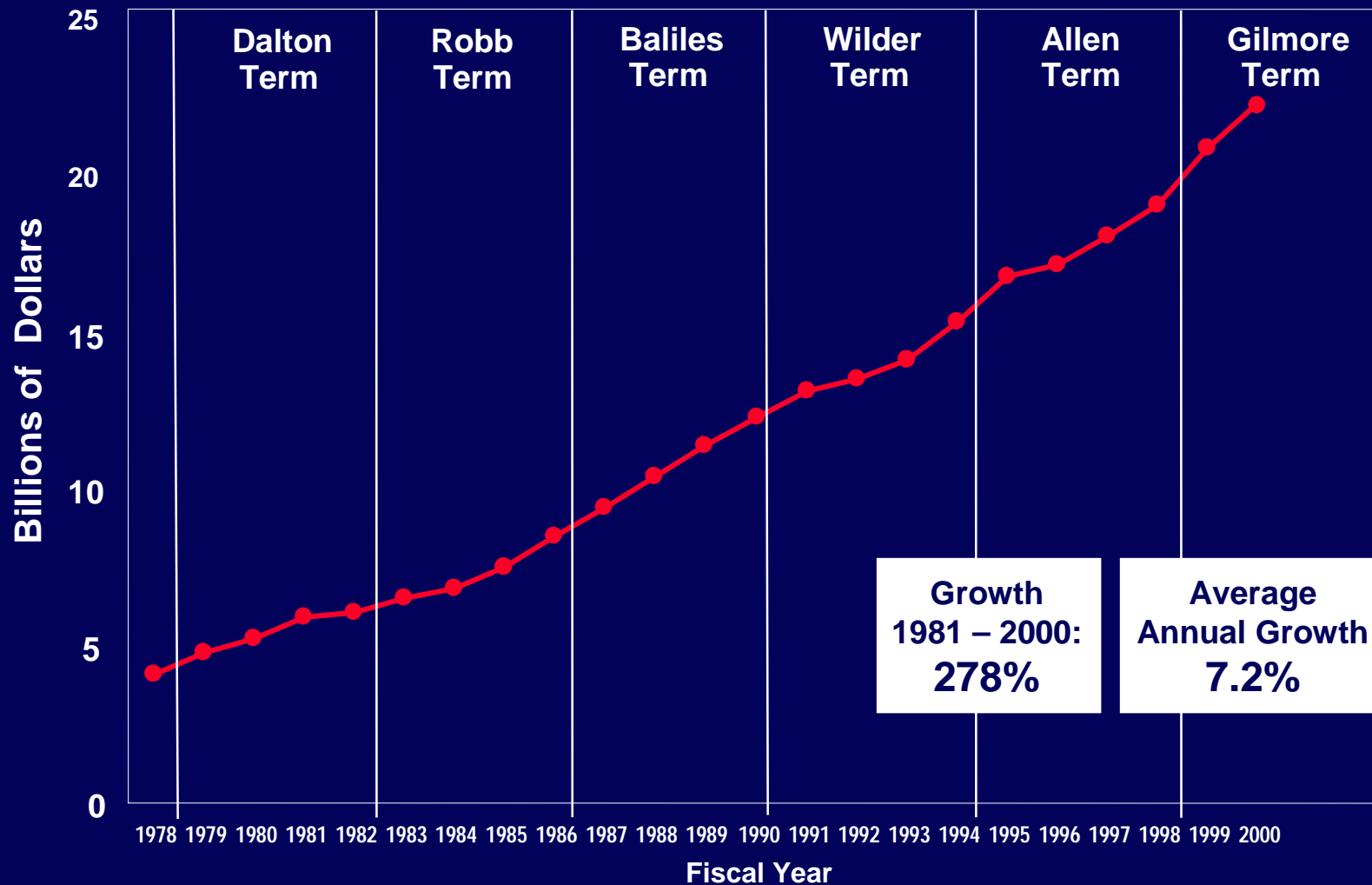
Explaining Budget Growth

6

- JLARC staff will seek to explain long-term budget growth by a combination of methods:
 - Analyzing societal factors such as population growth, inflation, growth in personal income, etc.
 - Recapping Virginia-specific factors, such as initiatives and funding decisions
 - Identifying budget drivers – the agencies and programs that account for the bulk of spending growth
 - Examining how individual agency budgets have grown

Total Virginia Expenditures (All Funds)

7



Societal Factors

1980 - 2000

8

	<u>US</u>	<u>Virginia</u>
Population	21%	32%
Inflation (CPI-U)	92%	92%
Gross State		
Product*	71%	91%
Personal Income**	65%	84%

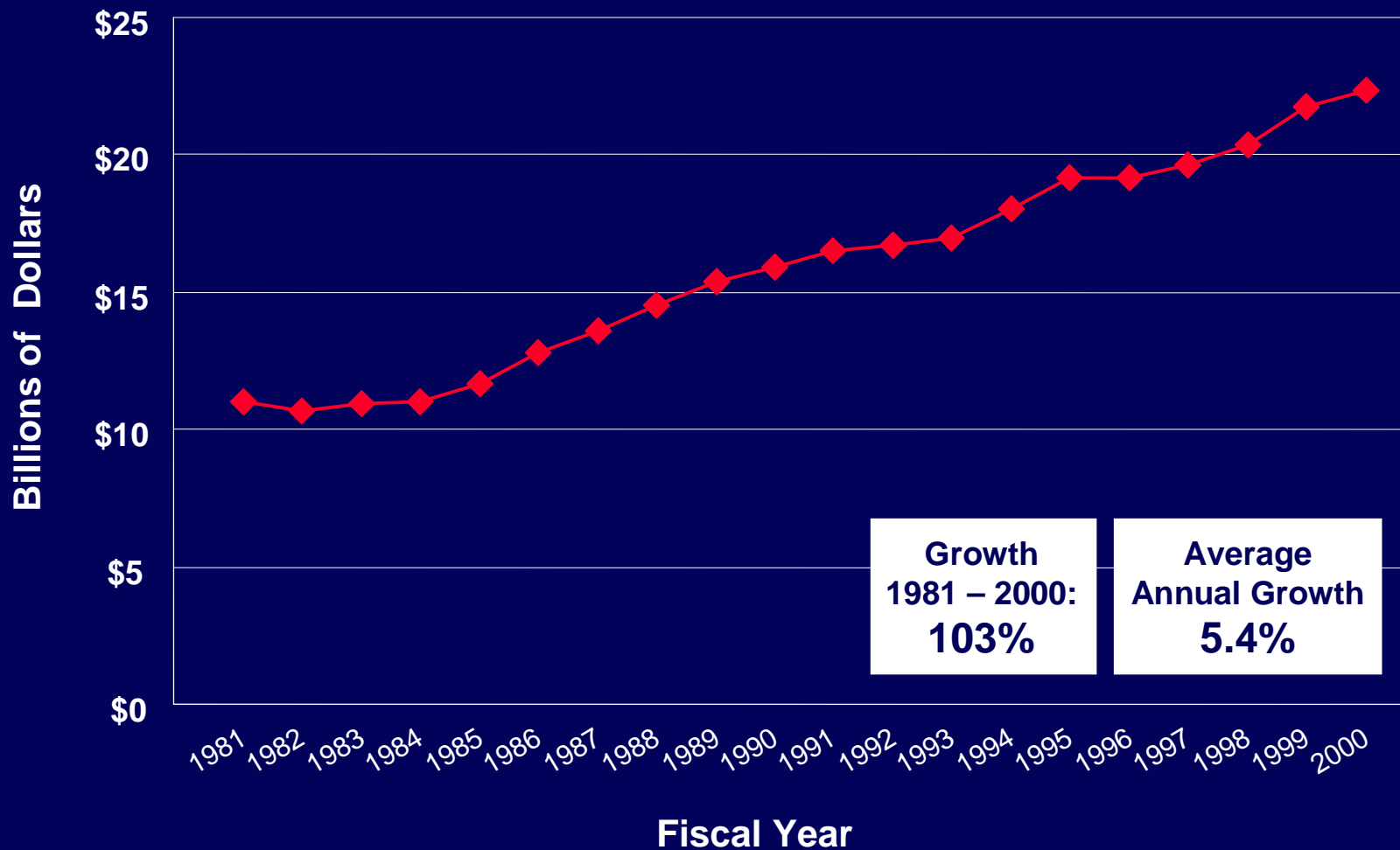
*Inflation adjusted 1999 dollars

**Inflation adjusted 2000 dollars

Inflation-Adjusted Expenditures

(In 2000 Dollars)

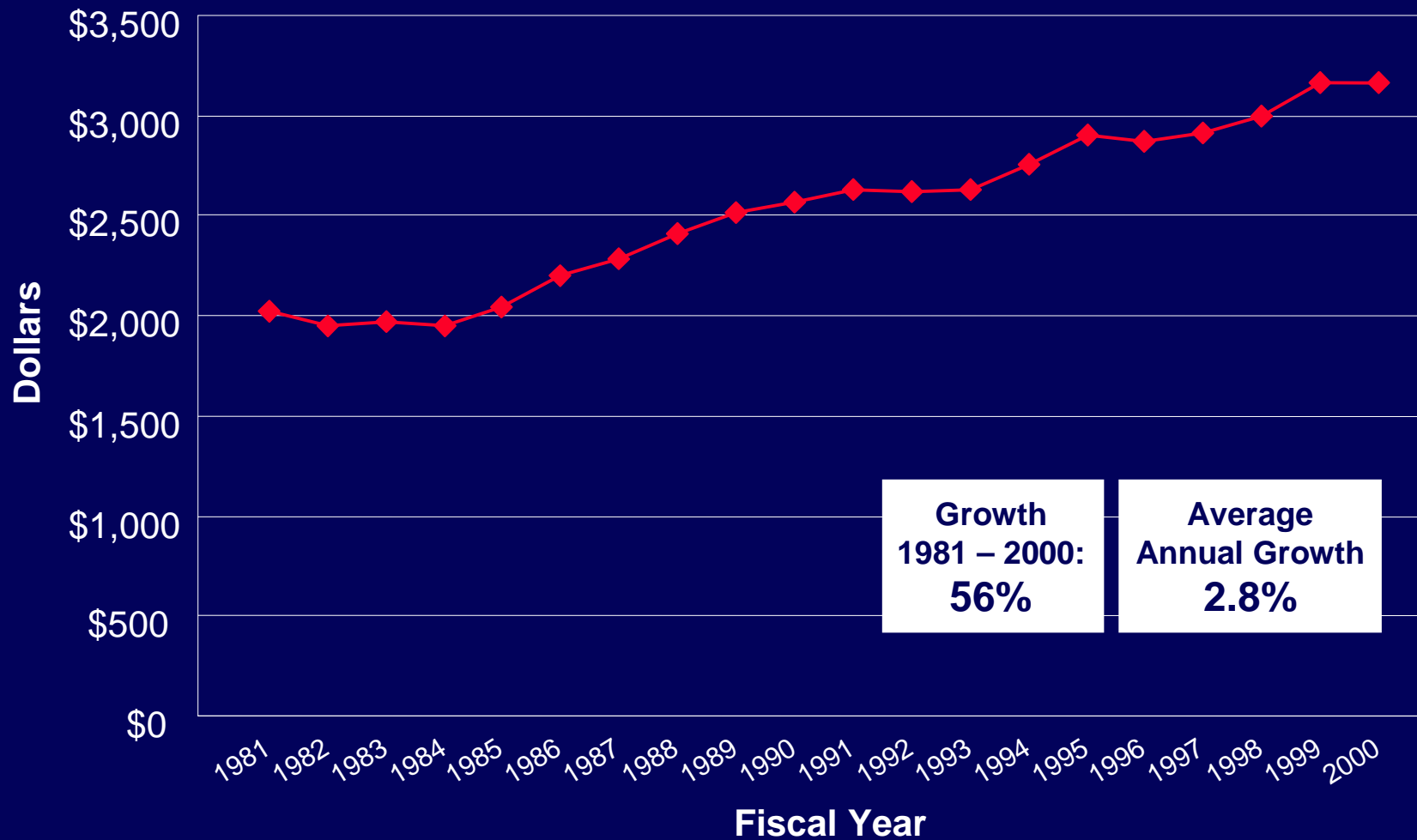
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Inflation-Adjusted Expenditures Per Capita

(In 2000 Dollars)

10



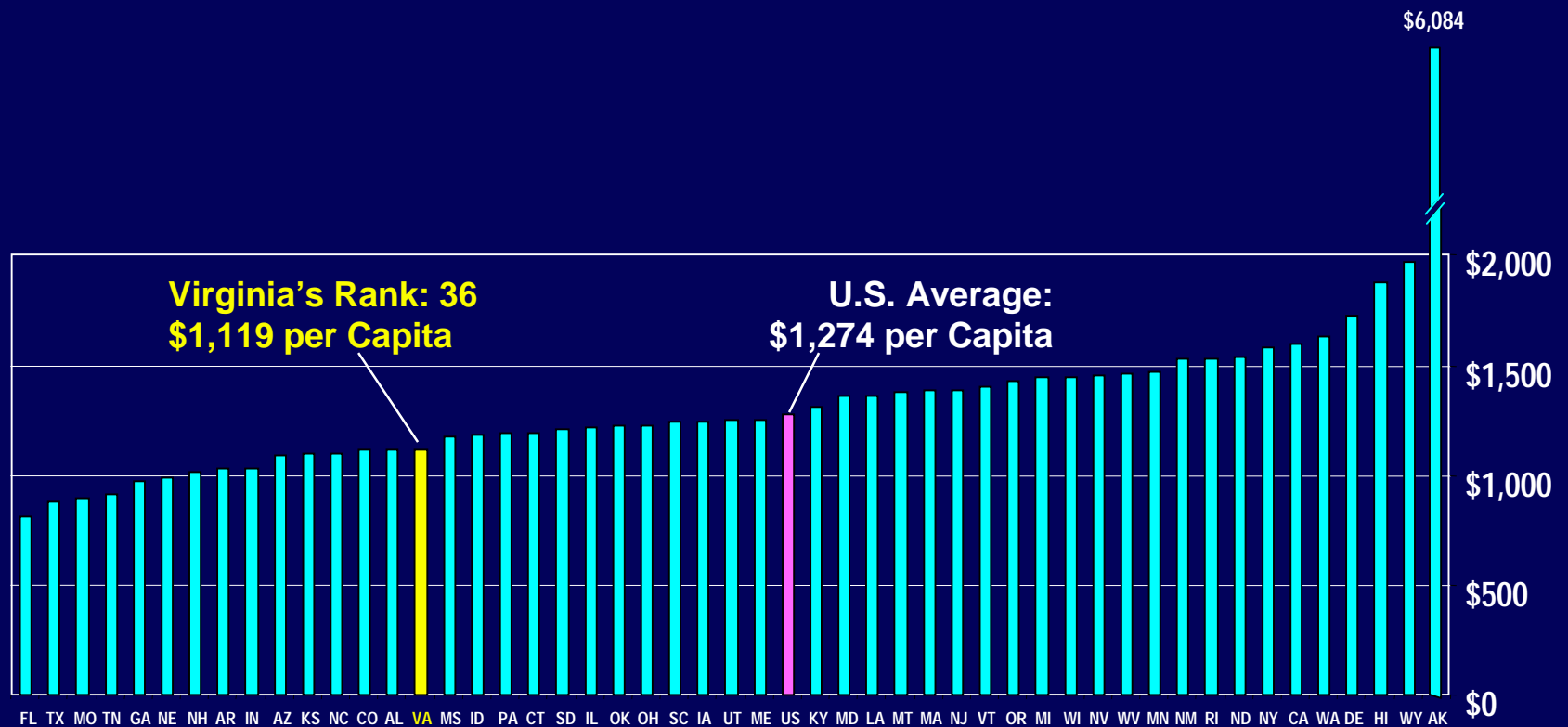
How Virginia Ranks in Per Capita State Spending

11

- Spending in other states kept pace or exceeded Virginia's rate
 - 1981: Virginia ranked 36th among the 50 states
 - 1998: Virginia ranked 37th among the 50 states
- Average increase for all 50 states was 171%, from \$1,274 in 1981 to \$3,448 in 1998

States Compared for Spending Per Capita Fiscal Year 1981

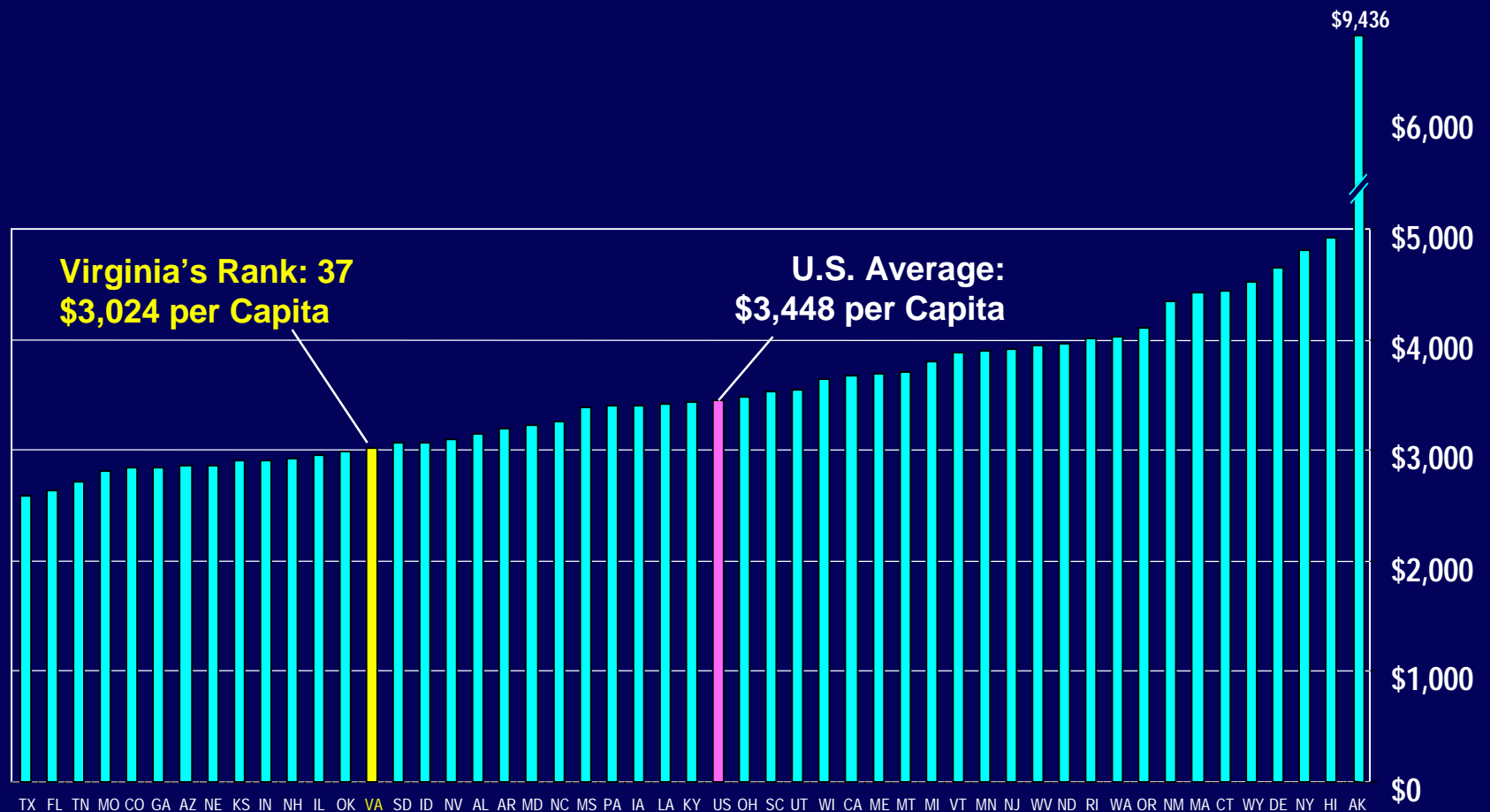
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Source: U.S. Census Bureau.

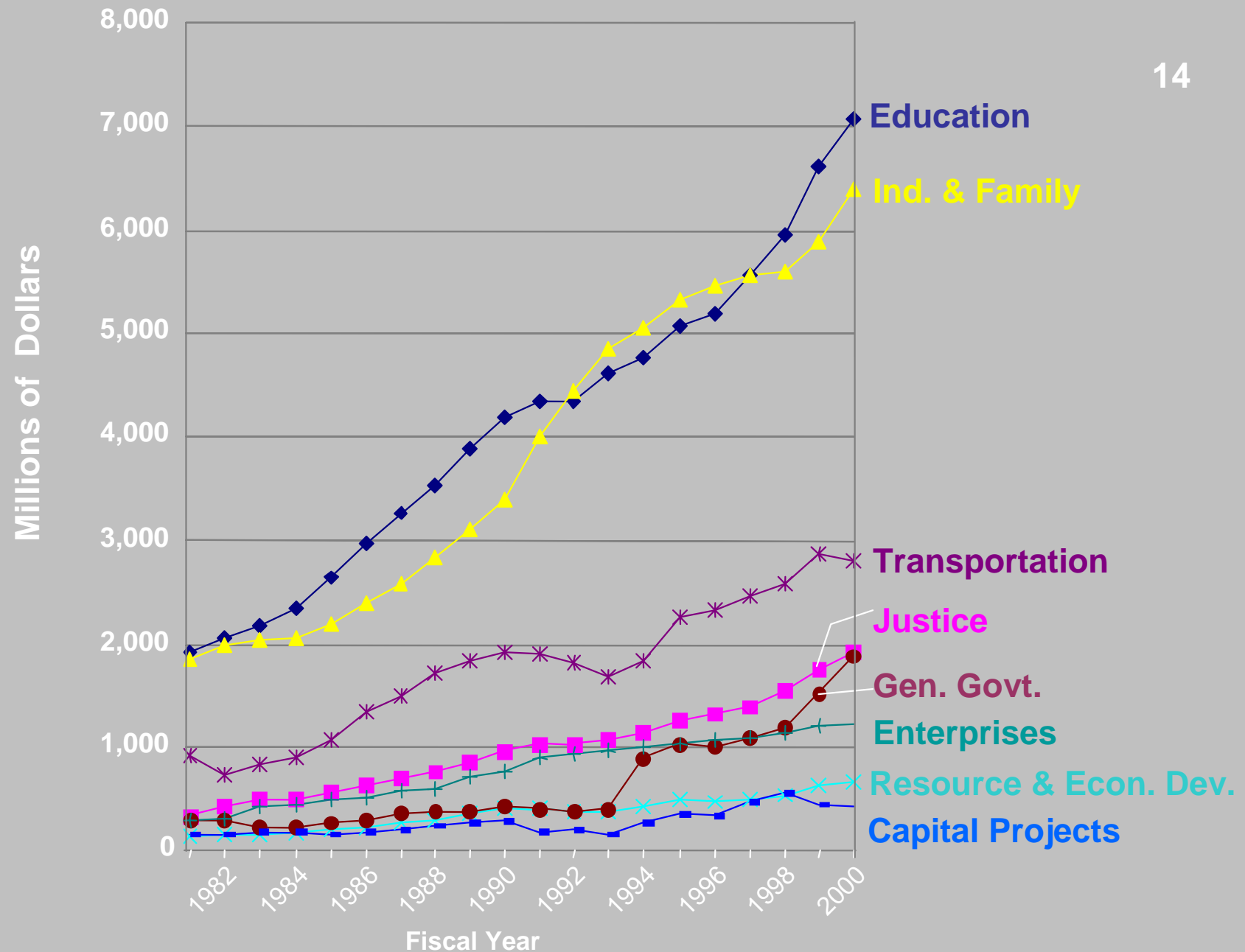
States Compared for Spending Per Capita Fiscal Year 1998

13



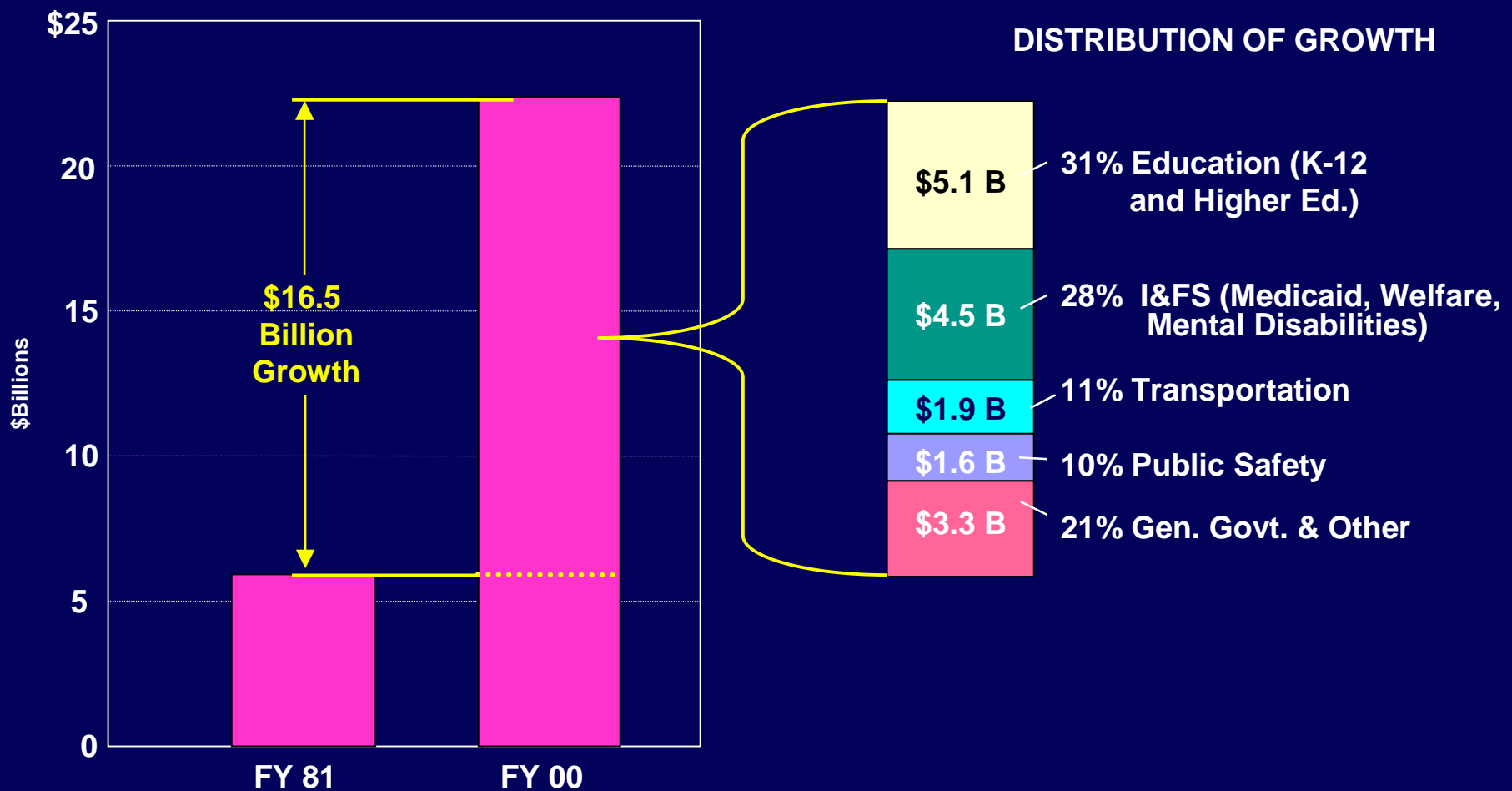
Source: U.S. Census Bureau.

Expenditures by Functional Area, FY 1981 -- FY 2000



Growth and Composition of State Budget Between FY 1981 and FY 2000

15



How Growth Was Calculated

16

FY 2000 Appropriation
– FY 1983 Appropriation
Growth Since FY 1983

DMAS Example (in millions)

FY 2000:	\$2,743.1
FY 1983:	– <u>\$ 417.1</u>
Growth:	\$2,326.0

Composition of Growth in Education Appropriations FY 1983 – FY 2000

17

■ Budget Growth in Education: \$5.1 billion

● Elementary & Secondary Education

- Public Education (SOQ) \$1,608 million
- Special State Revenue Sharing (Local Share of Sales Tax) \$ 820 million
- Public Education (Categorical) \$ 159 million

● Higher Education

- Education & General Programs \$1,412 million
- Higher Education Auxiliary Enterprises \$ 472 million
- Financial Assistance for E&G Services \$ 365 million
- Student Financial Assistance \$ 113 million

Composition of Growth in Individual and Family Services Appropriations FY 1983 – FY 2000 (continued)

18

■ Budget Growth in Individual & Family Services: \$4.5 billion

● Medical Assistance Services	\$2,326 million
● Child Support Enforcement	\$ 391 million
● State Health Services	\$ 384 million
● Employment Assistance Services	\$ 260 million
● Administrative & Support Services	\$ 253 million
● Protective Services	\$ 207 million
● Financial Assistance-Individual & Family	\$ 204 million
● Nutritional Services	\$ 118 million
● Community Health Services	\$ 107 million

Composition of Growth in Transportation and Public Safety Appropriations FY 1983 – FY 2000 (continued)

19

■ Budget Growth in Transportation: \$1.9 billion

- Highway System Acquisition & Construction** **\$804 million**
- Highway System Maintenance** **\$505 million**

■ Budget Growth in Public Safety: \$1.6 billion

- Crime Detection, Apprehension, Investigation** **\$343 million**
- Secure Confinement** **\$315 million**
- Pre-Trial & Appellate Processes** **\$187 million**
- Administrative & Support Services** **\$177 million**

Composition of Growth in General Government Appropriations FY 1983 – FY 2000 (continued)

20

■ Budget Growth in General Government: \$3.3 billion

● Personal Property Tax Relief*	\$ 398 million
● Revenue Stabilization*	\$ 194 million
● Financial Assistance to Localities-Gen.	\$ 174 million
● Bond & Loan Retirement & Redemption	\$ 166 million
● Compensation Supplements (State)	\$ 153 million

*Program did not exist in FY 1983

Which Agencies Grew Fastest Between FY 1981 and FY 2000?

21

- In Terms of Absolute Change (Nominal Dollars) in Appropriation
- In Terms of Percentage Change
 - All Funds
 - General Funds Only
 - Non-General Funds
- Agencies Accounting for Most of the Budget Growth (Budget Drivers)
 - Growth in General Funds
 - Growth in Non-General Funds

Which 20 State Agencies Grew Fastest Between FY 1981 and FY 2000?

22

■ Largest Nominal Dollar Change in Total Appropriation

1. Department of Education	\$ 2,976 million
2. Universities	\$ 2,695 million
3. DMAS	\$ 2,426 million
4. VDOT	\$ 1,421 million
5. Dept. of Social Services	\$ 775 million
6. Dept. of Corrections	\$ 564 million
7. Central Appropriations	\$ 507 million
{Includes Car Tax}	{\$ 398 million}
8. DMHMRSAS	\$ 494 million
9. Compensation Board	\$ 404 million
10. VCCS	\$ 294 million

Which 20 State Agencies Grew Fastest Between FY 1981 and FY 2000?

23

■ Largest Nominal Dollar Change in Total Appropriation

11. Department of Health	\$ 287 million
12. Department of Criminal Justice Services	\$ 249 million
13. Department of Treasury	\$ 202 million
14. Department of Juvenile Justice*	\$ 180 million
15. Treasury Board	\$ 174 million
16. Supreme Court	\$ 165 million
17. Comprehensive Services Act*	\$ 151 million
18. Department of Environmental Quality*	\$ 146 million
19. Virginia Employment Commission	\$ 138 million
20. State Police	\$ 126 million

*Agency did not exist in FY 1981

Which 20 State Agencies Grew Fastest Between FY 1981 and FY 2000?

24

Agency	Nominal % Change <u>All Funds</u>	Inflation-Adjusted % Change <u>All Funds</u>
1. DCJS*	1675%	808%
2. DEQ*	865%	394%
3. Compensation Board	755%	337%
4. Treasury Board	606%	261%
5. DMAS*	556%	236%
6. DOC	362%	137%
7. Central Appropriations	360%	129%
8. Supreme Court	348%	129%
9. Taxation	343%	127%
10. Universities	337%	123%

*Agency did not exist in FY 1981

Which 20 State Agencies Grew Fastest Between FY 1981 and FY 2000?

25

Agency	Nominal % Change <u>All Funds</u>	Inflation-Adjusted % Change <u>All Funds</u>
11. DJJ*	336%	123%
12. DOE	266%	87%
13. SCC	246%	77%
14. State Police	246%	77%
15. DGIF	233%	71%
16. VDH	232%	70%
17. DMV	228%	68%
18. DMHMRAS	226%	67%
19. DSS	223%	65%
20. DOA	207%	57%

*Agency did not exist in FY 1981

Fastest Growing Agencies in Terms of Percentage FY 1981 - FY 2000 -- General Funds Only

26

Agency	Nominal % Change <u>General Funds</u>	Inflation-Adjusted <u>% Change GF</u>
1. Compensation Board	747%	333%
2. DEQ*	690%	304%
3. DMAS	628%	273%
4. Treasury Board	591%	253%
5. Supreme Court	347%	129%
6. Dept. of Corrections	324%	117%
7. Central Appropriations	312%	111%
8. Dept. of Education	281%	95%
9. Taxation	221%	64%
10. DMHMRSAS	219%	63%

*Agency did not exist in FY 1981

Fastest Growing Agencies in Terms of Percentage FY 1981 - FY 2000 -- General Funds Only

27

Agency	Nominal % Change <u>General Funds</u>	Inflation-Adjusted <u>% Change GF</u>
11. Universities	200%	54%
12. State Police	195%	51%
13. Dept. of Accounts	193%	50%
14. Va. Dept. of Health	175%	41%
15. VCCS	168%	37%
16. DSS	121%	13%
17. Dept. of Ag. & Consumer Svcs.	98%	1%

Fastest Growing Agencies in Terms of Percentage FY 1981 - FY 2000 – Non-General Funds Only

28

Agency	Nominal % Change <u>Non-General Funds</u>	Inflation-Adjusted % Change <u>NGF</u>
1. DMAS*	502%	208%
2. Universities	451%	182%
3. SCC	298%	104%
4. VCCS	281%	95%
5. DSS	276%	92%
6. Va. Dept. of Health	270%	90%
7. DMHMRSAS	235%	71%
8. Game & Inland Fisheries	232%	70%
9. DMV	228%	68%
10. DCJS	221%	64%

*Agency did not exist in FY 1981

Fastest Growing Agencies in Terms of Percentage FY 1981 - FY 2000 – Non-General Funds Only

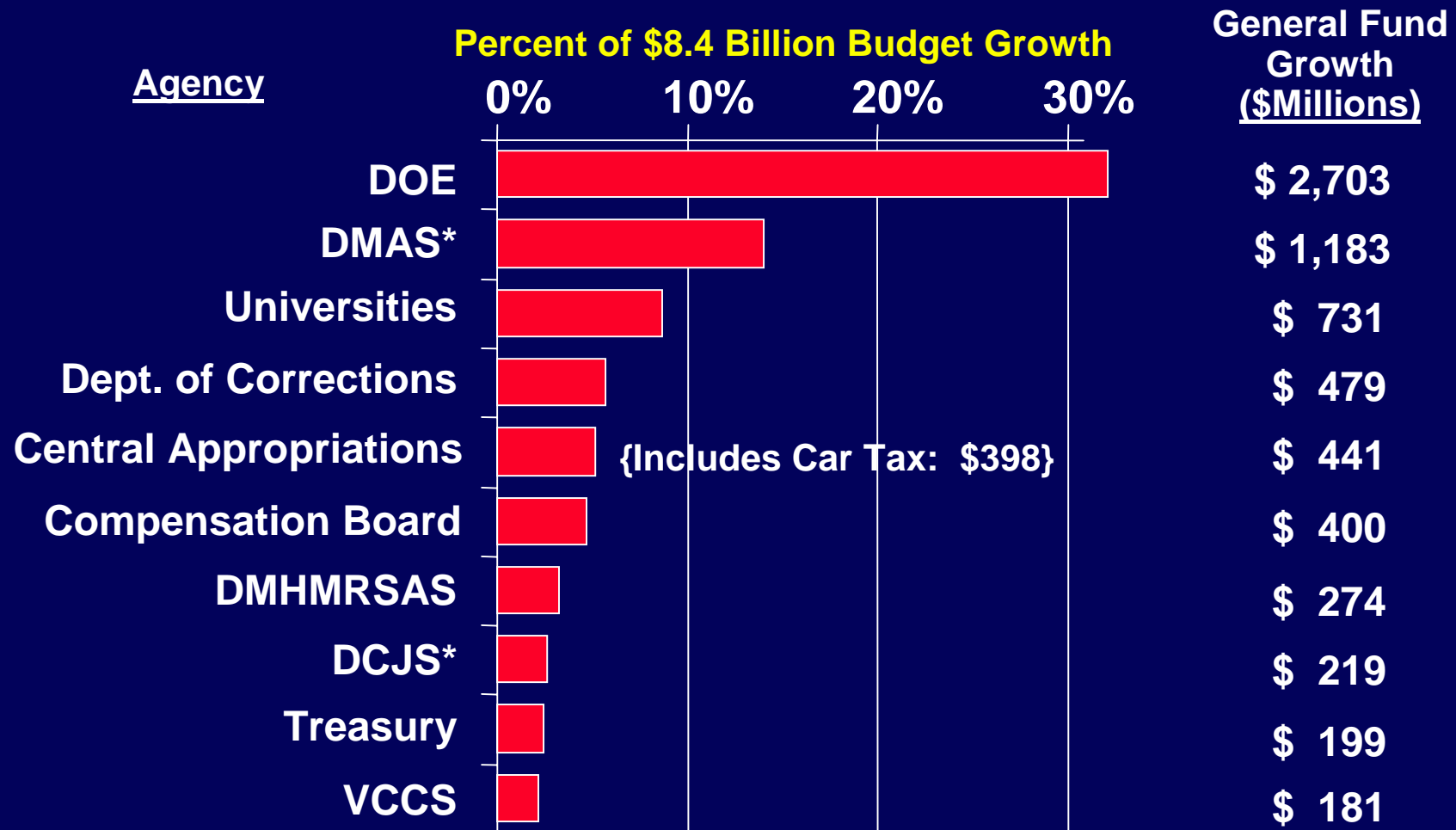
29

Agency	Nominal % Change <u>Non-General Funds</u>	Inflation-Adjusted <u>% Change NGF</u>
11. DOE	175%	41%
12. VDOT	140%	23%
13. DRS	139%	22%
14. VEC	59%	-19%
15. Visually Handicapped	37%	-30%
16. ABC	22%	-37%
17. Dept. of Aging*	20%	-39%
18. Dept. of Aviation	13%	-42%

*Agency did not exist in FY 1981

Which State Agencies Accounted for Most of the \$8.4 Billion in General Fund Budget Growth Between FY 1981 and FY 2000?

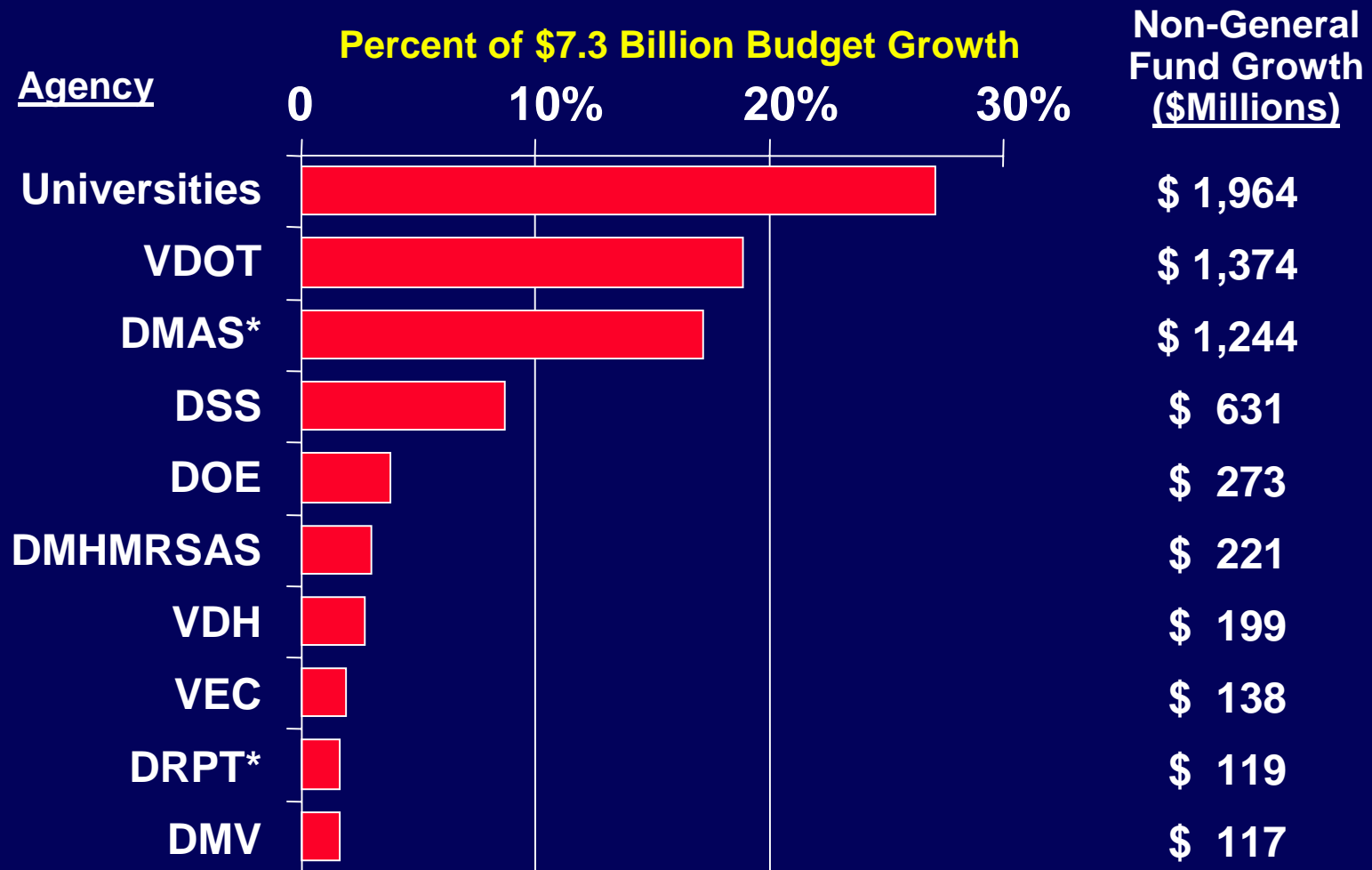
30



*Agency did not exist in FY 1981

Which State Agencies Accounted for Most of the \$7.3 Billion in Non-General Fund Budget Growth Between FY 1981 and FY 2000?

31



*Agency did not exist in FY 1981

Presentation Outline

32

☐ Study Mandates

☐ Budget Growth in Virginia

☒ Case Studies

- Department of Medical Assistance Services
- Department of Motor Vehicles

☐ Performance Measurement in Budgeting

Largest Appropriations, FY 2000

33

1. Dept. of Education	\$4,096 million
2. Dept. of Medical Assistance Services	\$2,863 million
3. VDOT	\$2,401 million
4. Dept. of Social Services	\$1,122 million
5. U.Va. (inc. Med Center & C. of Wise)	\$1,083 million
6. Dept. of Corrections	\$ 719 million
7. DMHMRSAS	\$ 713 million
8. Va. Tech (incl. Extension)	\$ 592 million
9. VCU (excludes MCV)	\$ 501 million
10. Compensation Board	\$ 457 million

Largest Appropriations, FY 2000

(Continued)

34

11. Va. Community College System	\$ 441.7 million
12. Va. Dept. of Health	\$ 410.4 million
13. Personal Property Tax Relief (Car Tax)	\$ 398.1 million
14. Capital Outlay	\$ 392.1 million
15. Va. Employment Commission	\$ 372.4 million
16. George Mason University	\$ 293.1 million
17. Dept. of Criminal Justice Services	\$ 264.0 million
18. Dept. of Alcoholic Beverage Control	\$ 252.0 million
19. Judicial Department	\$ 241.5 million
20. James Madison University	\$ 211.8 million

Largest Appropriations, FY 2000

(Continued)

35

21. Dept. of Treasury	\$ 203.9 million
22. Treasury Board	\$ 202.2 million
23. Dept. of Juvenile Justice	\$ 190.5 million
24. Old Dominion University	\$ 182.2 million
25. Dept. of State Police	\$ 177.9 million
26. College of William & Mary (incl. VIMS, R. Bland)	\$ 175.8 million
27. Compensation Supplements	\$ 173.0 million
28. Dept. of Motor Vehicles	\$ 168.2 million
29. Dept. of Environmental Quality	\$ 162.3 million
30. Comprehensive Services Act	\$ 151.0 million

DMAS Case Study

36

- **DMAS is responsible for administering the Medicaid program, a State-federal program to provide medical services to eligible individuals**
 - **Prior to FY 1985 the Medicaid program was administered by the Virginia Department of Health**
- **Major activities include administering Virginia Medicaid policy, certifying Medicaid providers, ensuring payments to providers by way of a private contractor**
- **FY 2000 appropriation of \$2.86 billion ranked second in overall budget size**
- **DMAS funding is slightly less than 50% State general funds. Most of the balance is federal funding**

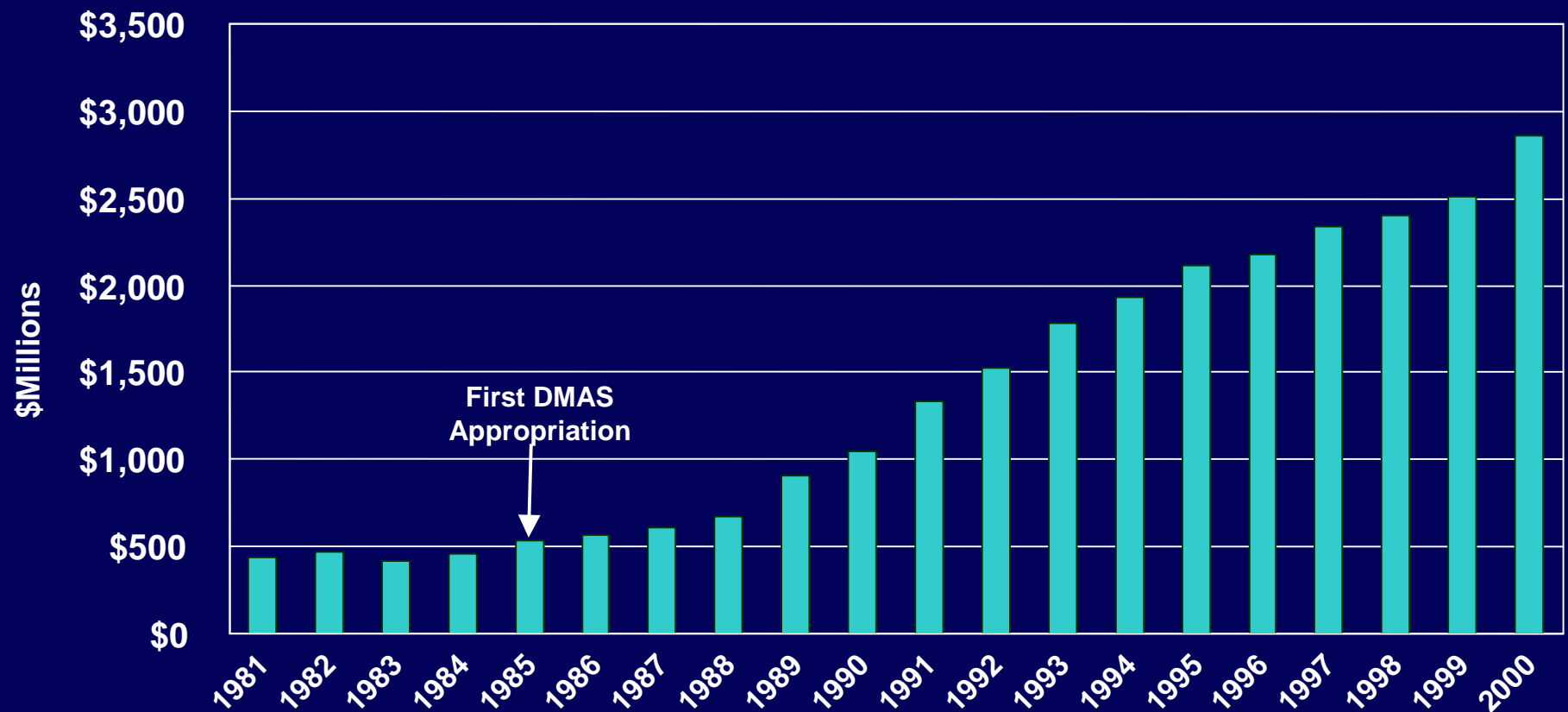
DMAS Key Indicators

37

	Total Aged, Blind & Disabled <u>Eligibles</u>	Total TANF/ADC Related Eligibles (Children & Adults <u>with Children</u>)	<u>Budget</u>
1981	89,008	199,246	\$ 436 million
2000	224,313	449,814	\$ 2,863 million
Increase	152%	126%	557%
Average Annual Increase	5%	4.6%	10.8%
FY 2000 Expenditures	\$1,830.3 million	\$580.4 million	
FY 2000 Per Capita	\$8,160	\$1,290	

Medicaid / DMAS Appropriations

38



Key Changes in DMAS Appropriations

39

- **DMAS appropriations have been characterized by relatively large dollar increases. Significant spending drivers include:**
 - **Early 1990s: Overall growth in medical costs and a more gradual increase in eligible populations, especially aged, blind & disabled population**
 - **FY 1991-1993: Economic downturn increases AFDC related eligibles; disproportionate share payments begin; personal care services became an alternative to nursing homes**
 - **FY 1993-1994: Medallion I managed care begins**
 - **FY 1999-2000: Increases in pharmacy expenditures (new more expensive drugs); diagnostic related guidelines (DRG) transition costs; increased rates for nursing homes and personal care services**

Other Changes Affecting DMAS Spending Increases

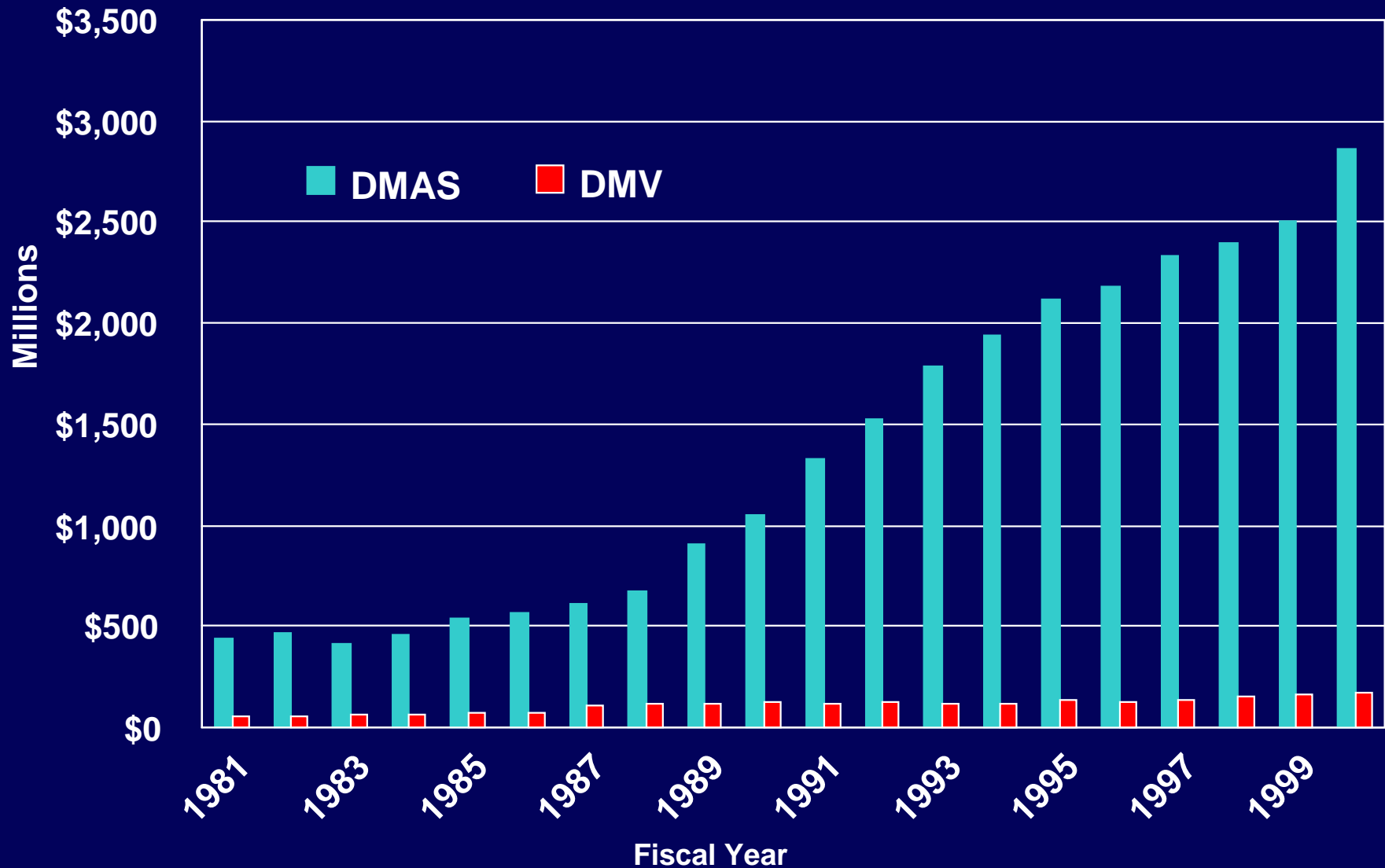
40

■ Increases in the scope of Virginia's Medicaid program:

- 1985: Coverage of Pregnant Women and Poor Children (\$2.2 million GF)
- 1986: Prenatal Care For Mothers, Provision of Neonatal Care (\$2.8 million GF)
- 1989: Grant transfer from DMHMRSAS for institutions (\$76.5 million GF)
- 1991: Catastrophic Health Care (\$19.3 million); Infant Mortality & Poor Children (OBRA 1989) (\$30.3 million)
- 1999: Expansion of Enrollment for Children (\$12.0 million)

DMAS and DMV Total Appropriations

41



DMV Case Study

42

- **DMV administers motor vehicle laws, promotes transportation safety, collects transportation revenues**
- **Major activities include:**
 - **Issuance, suspension, revocation of drivers' licenses**
 - **Vehicle registration, including carriers of passengers or property**
 - **Operation of motor carrier service centers**
 - **Administration of personal property tax reduction, fuel tax, dealer licensing, transportation safety, motor voter, and related laws**
- **FY 2000 appropriation of \$168.2 million ranked #28 in overall budget size. DMV is funded 100% from non-general funds.**

DMV Key Indicators

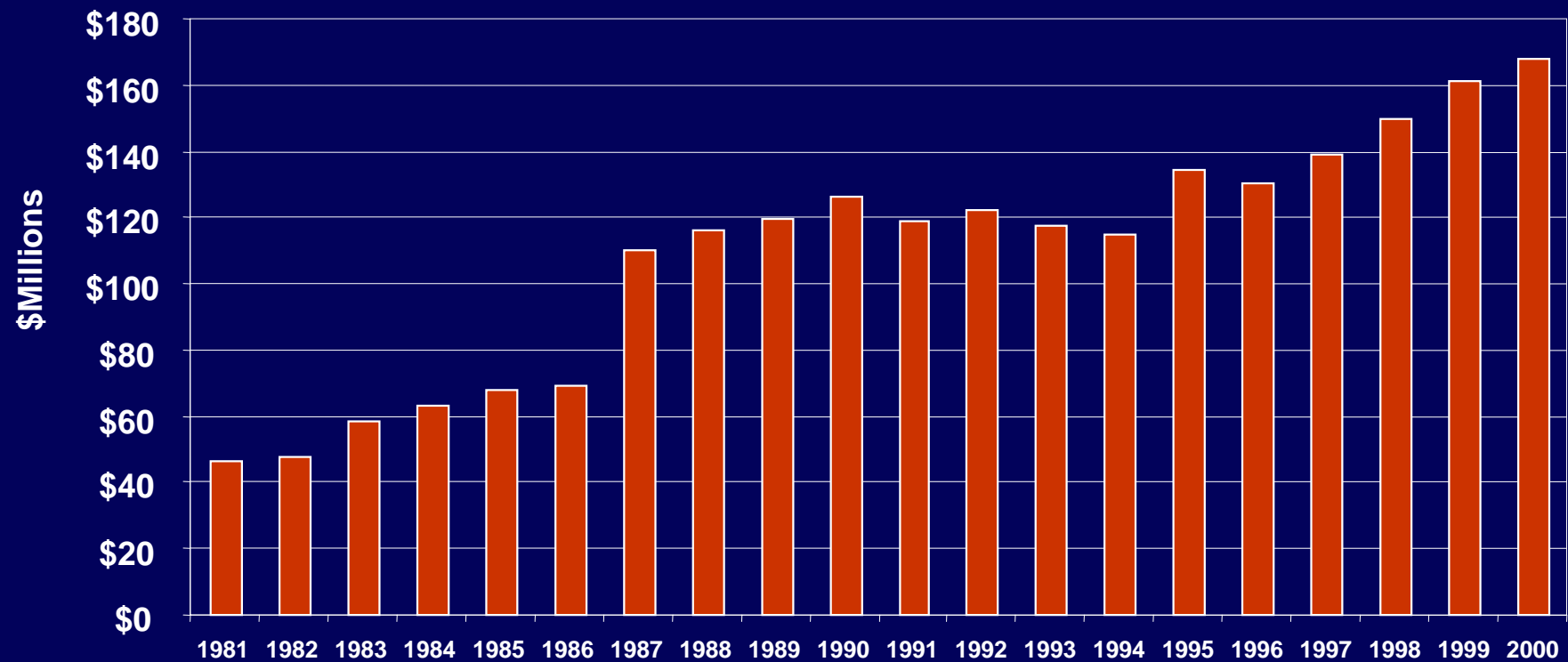
(in Millions, Except Percent)

43

	<u>Drivers</u>	<u>Vehicles</u>	<u>Budget</u>
1981	3.6	3.6	\$45.3
2000	5.5	6.2	\$152.8
% increase	54%	72%	237%
Average annual increase	2.5%	3.3%	7.0%

DMV Appropriations FY 1981- FY 2000

44



Key Changes in DMV Appropriations Since FY 1981

45

- Average annual change, FY 1981–FY 2000: 7.0%
 - State budget average annual change: 7.2%
- FY 1987: 60% increase (\$41 million) over prior year
 - 1986 Special Session increased fuel tax and other transportation-related revenues. The General Assembly established the DMV Special Fund, effective in FY 1988, earmarking specific fees for DMV operations.
- FY 1995: 16% increase (\$19 million) over prior year
 - Workforce Transition Act (WTA) payments for over 200 departing employees; also technology upgrade costs for customer service center system.

Other Major Changes at DMV that Impacted the Budget

46

Technology Improvements

- Queuing system, automated testing system
- License renewals by phone and internet
- Replacement of old systems

New Responsibilities

- Juvenile drivers licensing process
- National voter registration (motor voter)
- Motor carrier credentialing (transferred from SCC)
- Administering car tax phase-out

Other Changes

- Facility renovation & replacement
- Increased hours of operation; centralized call center; etc.

Conclusions

47

- **Average annual budget growth, FY 1981 – FY 2000**
 - **Nominal (unadjusted): 7.2%**
 - **Adjusted for population growth and inflation: 2.8%**
- **Other states kept pace with Virginia's spending**
- **A few agencies and programs account for much of the growth**
 - **5 agencies account for 66% of General Fund growth**
 - **5 agencies account for 75% of Non-General Fund growth**
- **Agency by agency explanation forthcoming in future JLARC presentations and reports**

Presentation Outline

48

- ☐ Study Mandates
- ☐ Budget Growth in Virginia
- ☐ Case Studies
 - Department of Medical Assistance Services
 - Department of Motor Vehicles
- ☒ Performance Measurement in Budgeting

JLARC Mandates in Performance Measurement and Budgeting

49

- HJR 773 of the 2001 Session directs JLARC to conduct “an analysis of the use of performance budgeting, performance measurement, and program evaluation information in the legislative budgeting process and how the information may be more systematically used for program improvement and budget decision-making by legislators...”
- The 2000 Appropriation Act and previous Acts have directed JLARC to review and comment on DPB’s development of performance measures.

Development of Performance Measures in Virginia

50

- Since 1990, the Department of Planning and Budget (DPB) has been studying or developing performance measures for use by Virginia State agencies.
- Since 1995, JLARC staff have assisted DPB in evaluating the quality and utility of agency measures. Throughout this period, executive branch agencies or secretaries have had the final approval on what indicators will be measured by the agency. Some measures appear to have been set so they can be easily attained or exceeded.
- Performance measures are now maintained for all executive branch agencies on *Virginia Results*. Budget instructions for the 2002 – 2004 biennium will direct agencies to provide contact information and source data to support their measures.

JLARC Review of Performance Measures

51

- JLARC's review of performance measures is intended to provide quality control, as well as a legislative perspective.
- The legislature provides a long-term perspective on the development of performance measures.
- JLARC staff seeks to ensure that agency measures are relevant to legislative interests, consistent with legislative intent, and reliable over time. However, staff only advise on the content or utility of measures.

Review of Performance Measures Under HJR 773

52

- **As part of its mandate under HJR 773, JLARC staff will review agency performance measures, generally as part of its case study reviews of agency spending histories.**
- **Staff will provide the Commission with data on agency attainment of performance objectives and will communicate to agencies any Commission recommendations on indicators and their content.**
- **Staff will develop recommendations on how measures can be improved and made more useful for program improvement and decision making.**

Auditor of Public Accounts Reviews

53

- The Auditor of Public Accounts has begun to review the reliability and accuracy of selected performance measures during its regular financial audit process.
- In May of 2000, the Auditor released a report on performance measures at selected higher education institutions. The report found most measures to be reliable and accurate, but with some inconsistencies between institutions.
- Typically, the APA will test 10 to 15 percent of agency performance measures, focusing on those that are relevant to financial management.

APA Audit Results

54

- On FY 2000 audits, the APA tested 89 out of about 700 measures. On these audits, the APA found that 99 percent of the information was accurate and reliable.
- On tested measures, the APA found that:
 - For 51 percent of the measures, agencies met or exceeded targeted performance levels (positive)
 - For 45 percent of the measures, agencies did not meet the targeted performance level (unfavorable)
 - For three percent, target information was not available.

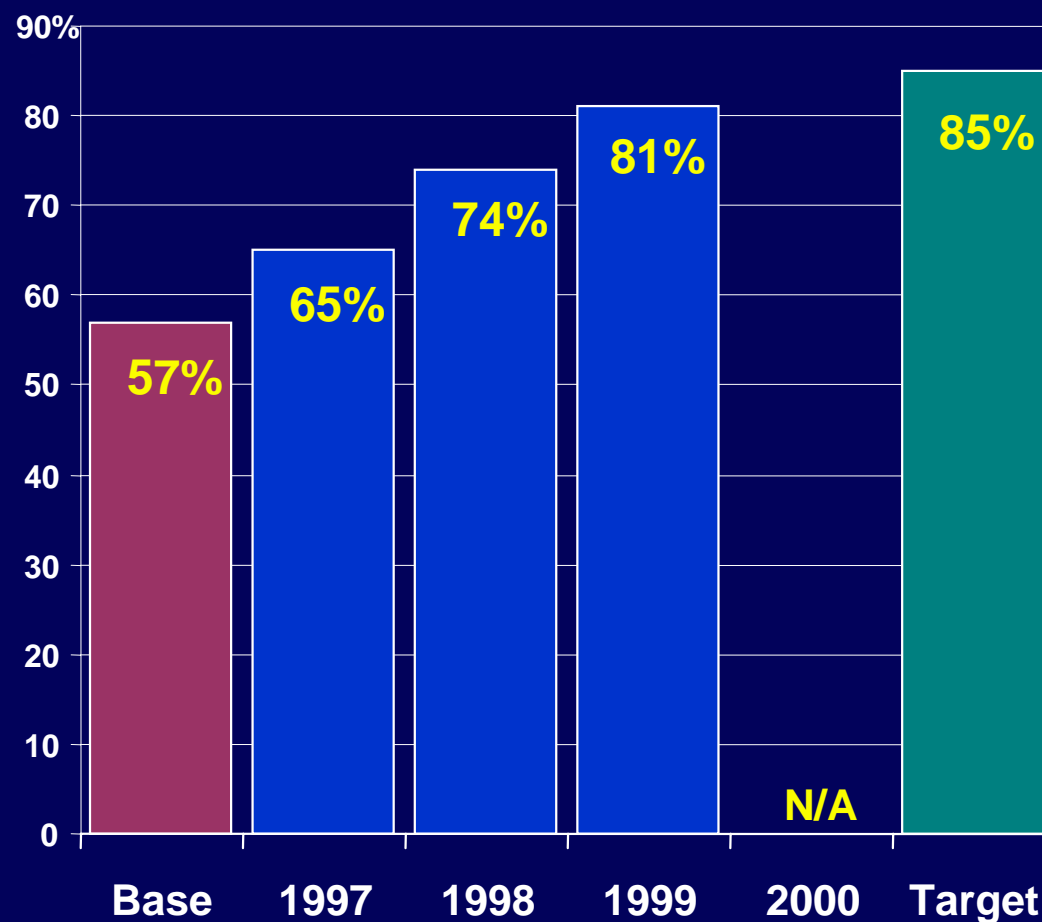
Performance Objectives Case Example: DMAS

55

- *Virginia Results* lists six measures for the Department of Medical Assistance Services (DMAS).
- DMAS measures generally address important objectives, however, in several cases the goals on *Virginia Results* do not reflect current objectives of the State or the department.
- Many fields of information on *Virginia Results* are not complete, including mission statement, key customer information, or an agency point of contact. Such information will be provided by all agencies as a part of the 2002-2004 budget submission process.

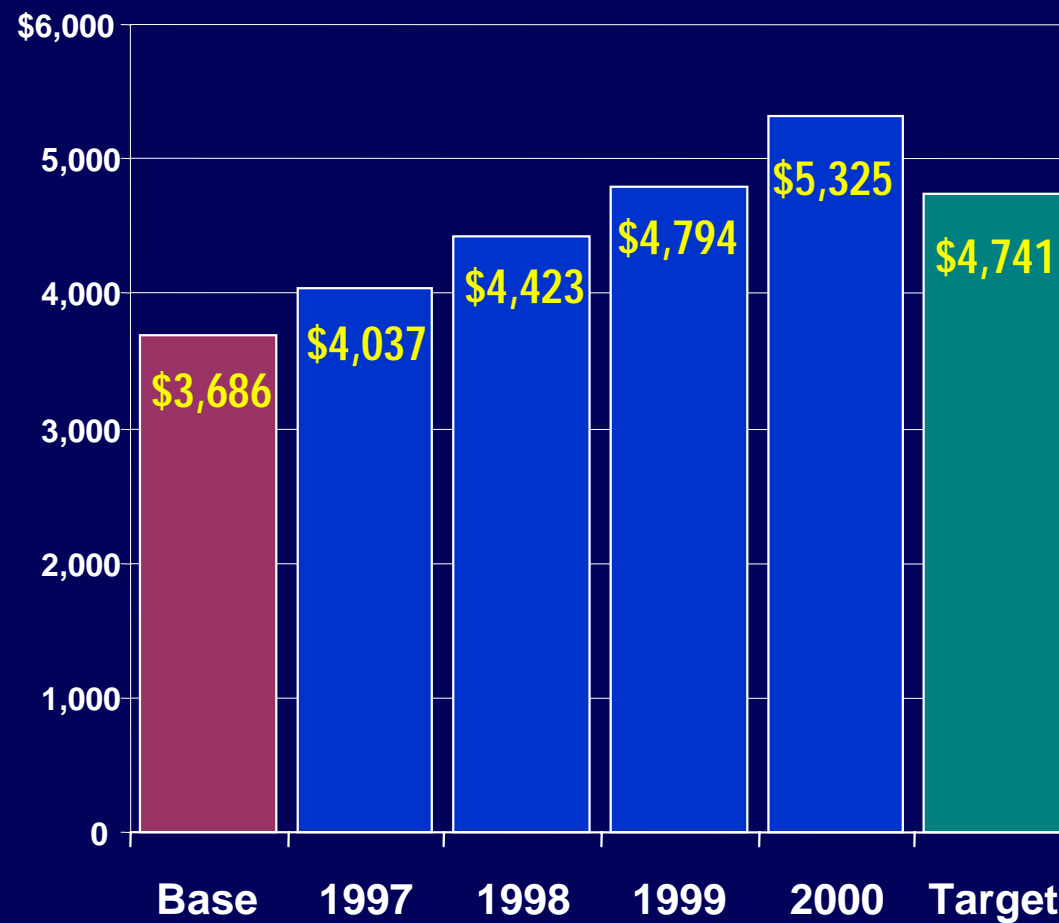
Percent Medicaid Children Fully Immunized by Age Two

56



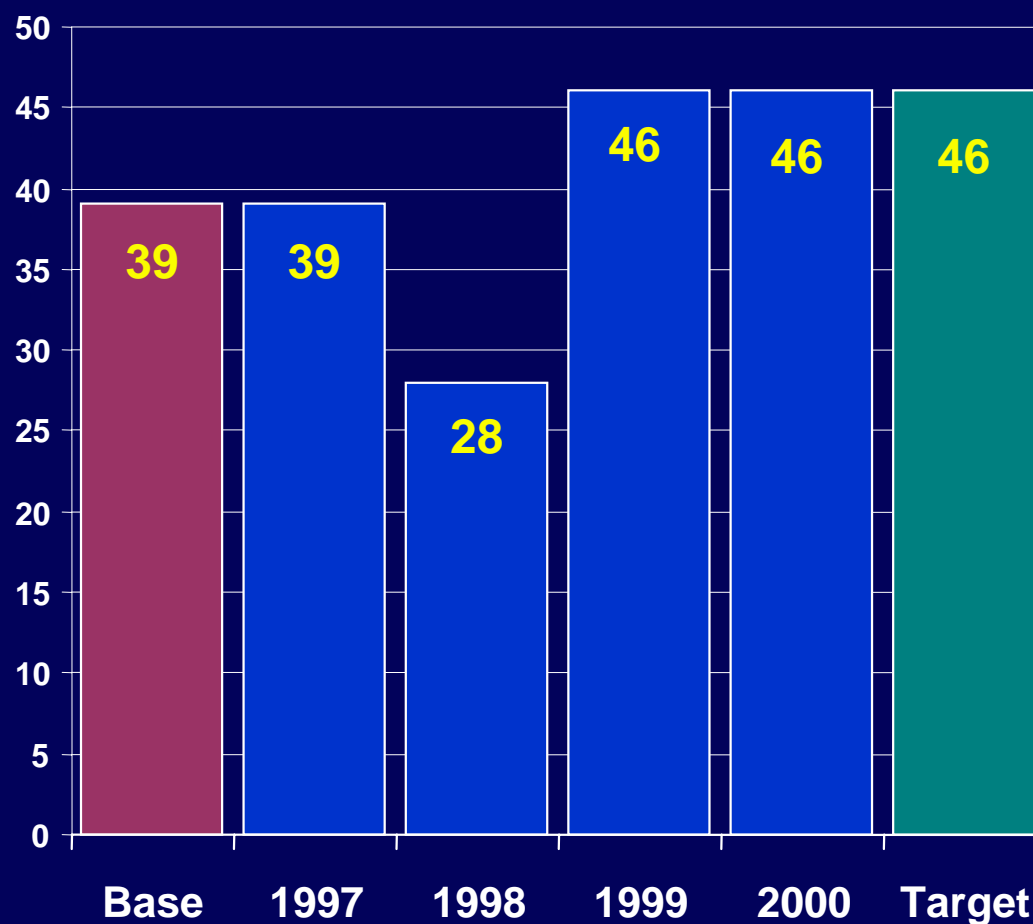
Cost per Eligible Client in All Medicaid Programs

57



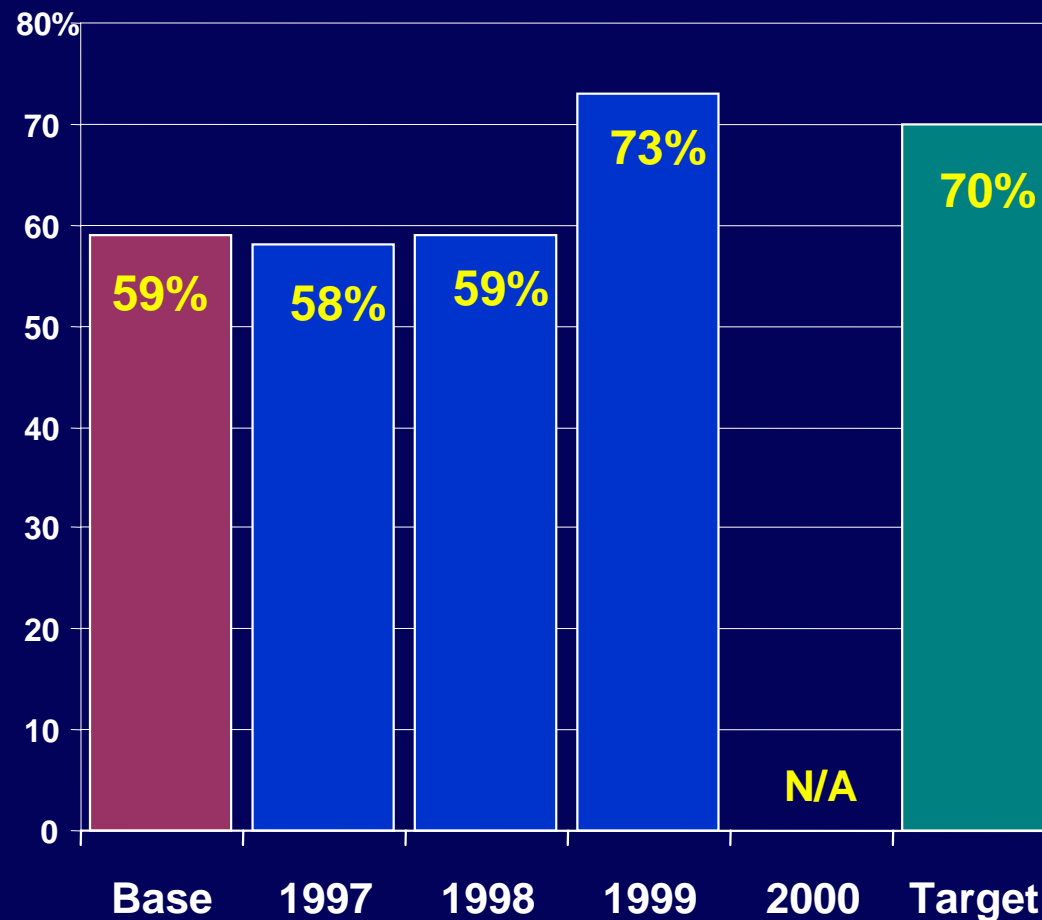
Number of Localities in Which Medicaid HMOs Operate

58



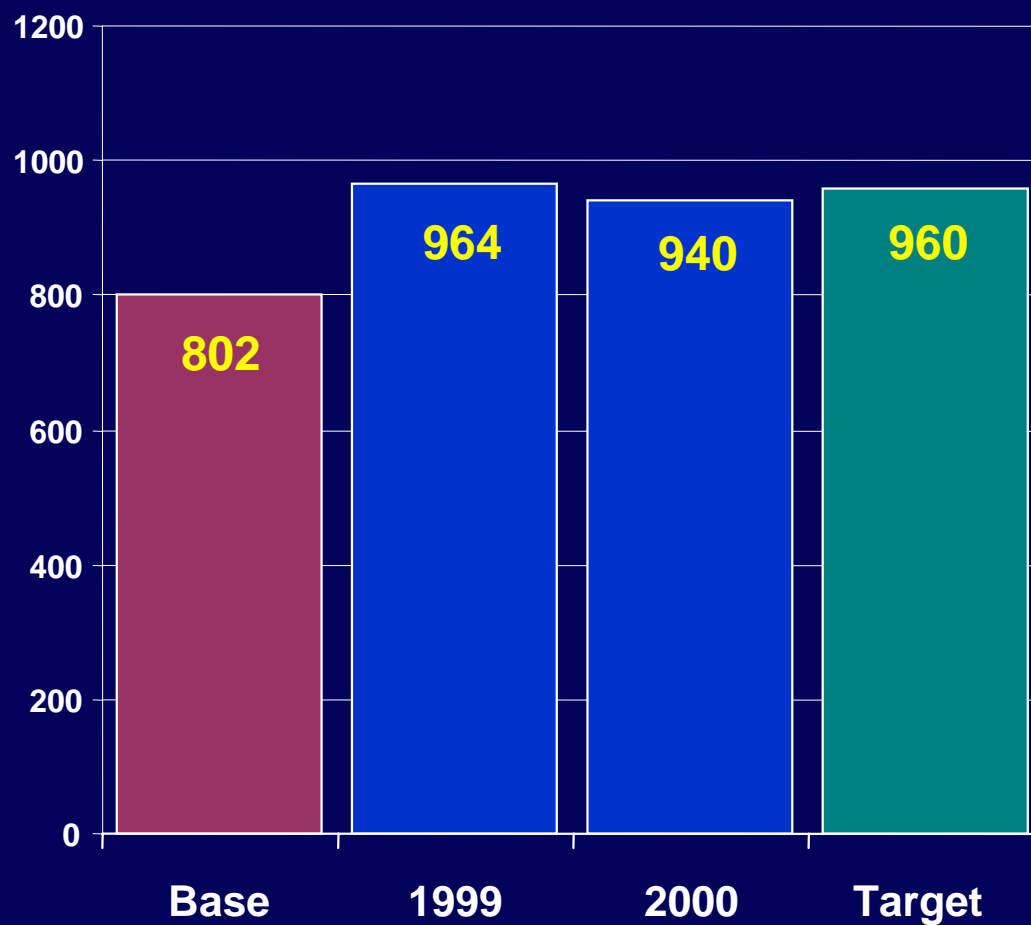
Percent Pregnant Medicaid Recipients Receiving Appropriate Prenatal Care

59



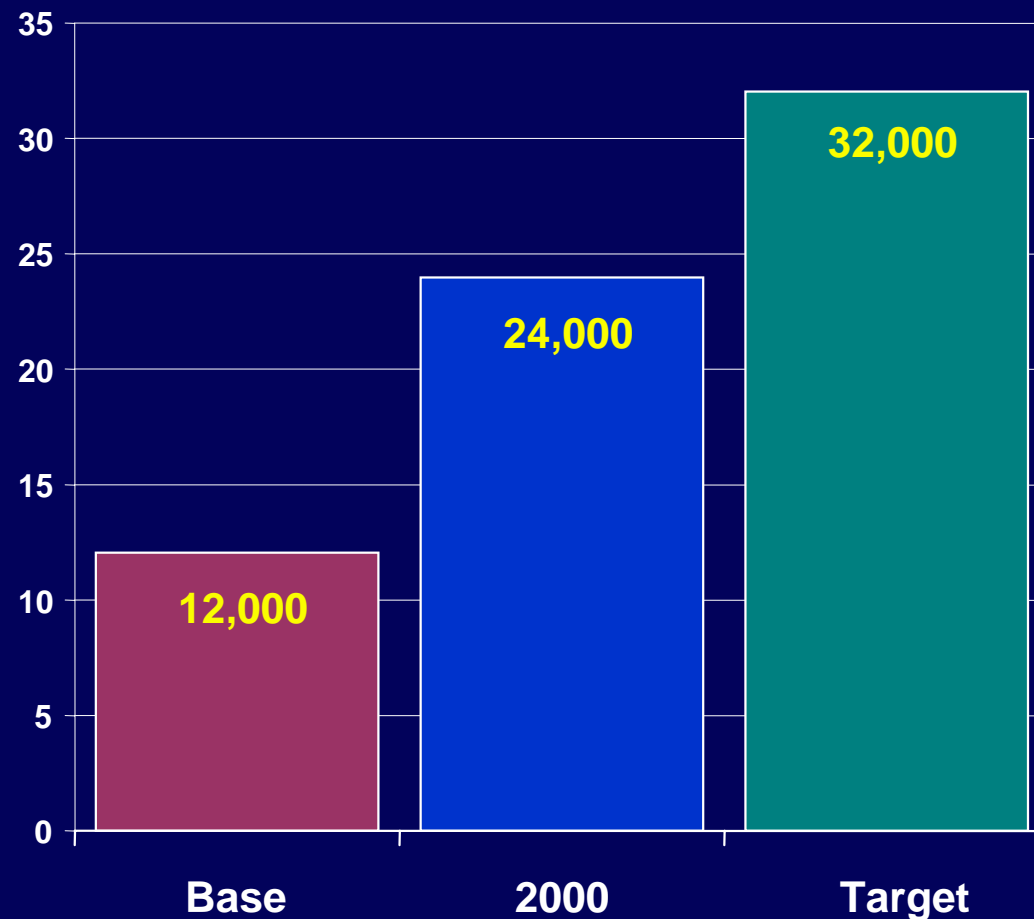
Number of Dental Providers in the Virginia Medicaid Program

60



Number of Children Enrolled in the Children's Health Insurance Program

61



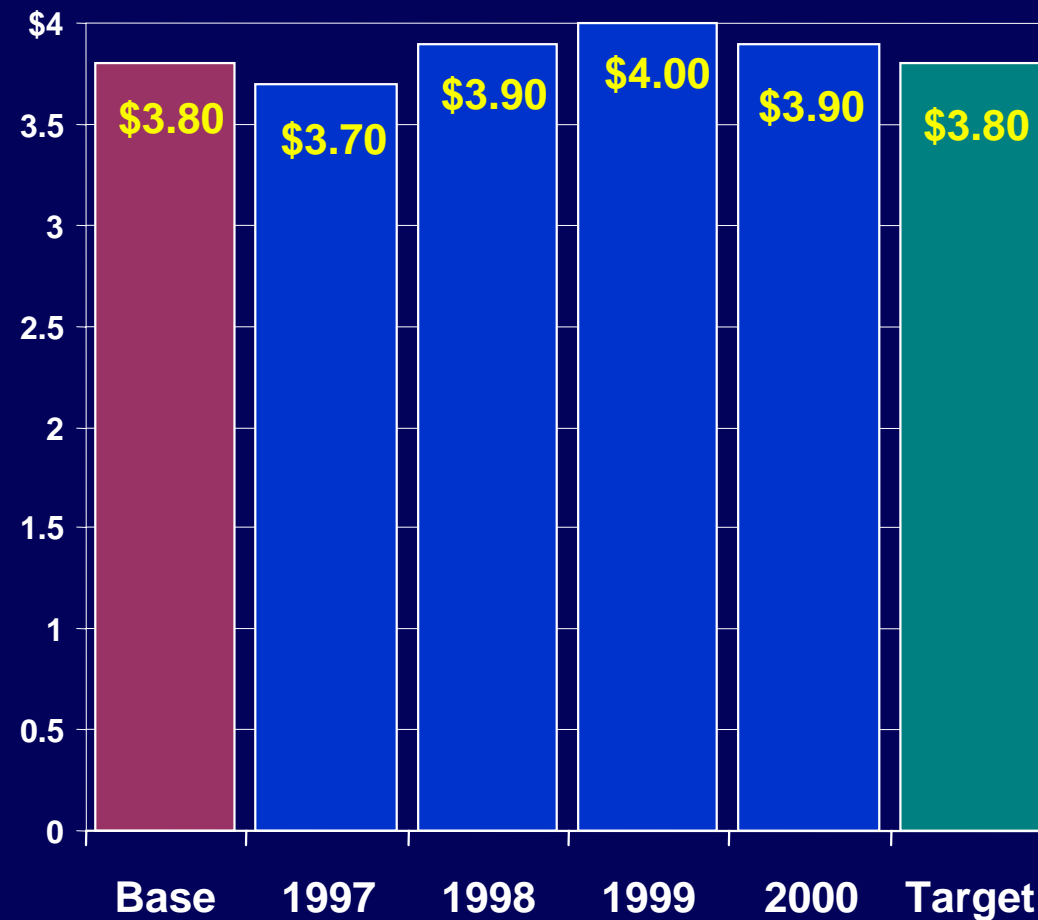
Performance Objectives Case Example: Department of Motor Vehicles (DMV)

62

- The three measures listed on *Virginia Results* are important performance measures used by DMV. These focus on the delivery of services to customers, customer satisfaction, and costs.
- DMV collects far more measurement information than that presented in these three measures. However, these measures are thought to capture key performance objectives of the agency.
- DMV has been recognized for its management and planning practices as a “Center of Excellence in Virginia.” The agency has received the U.S. Senate Productivity and Quality Award.

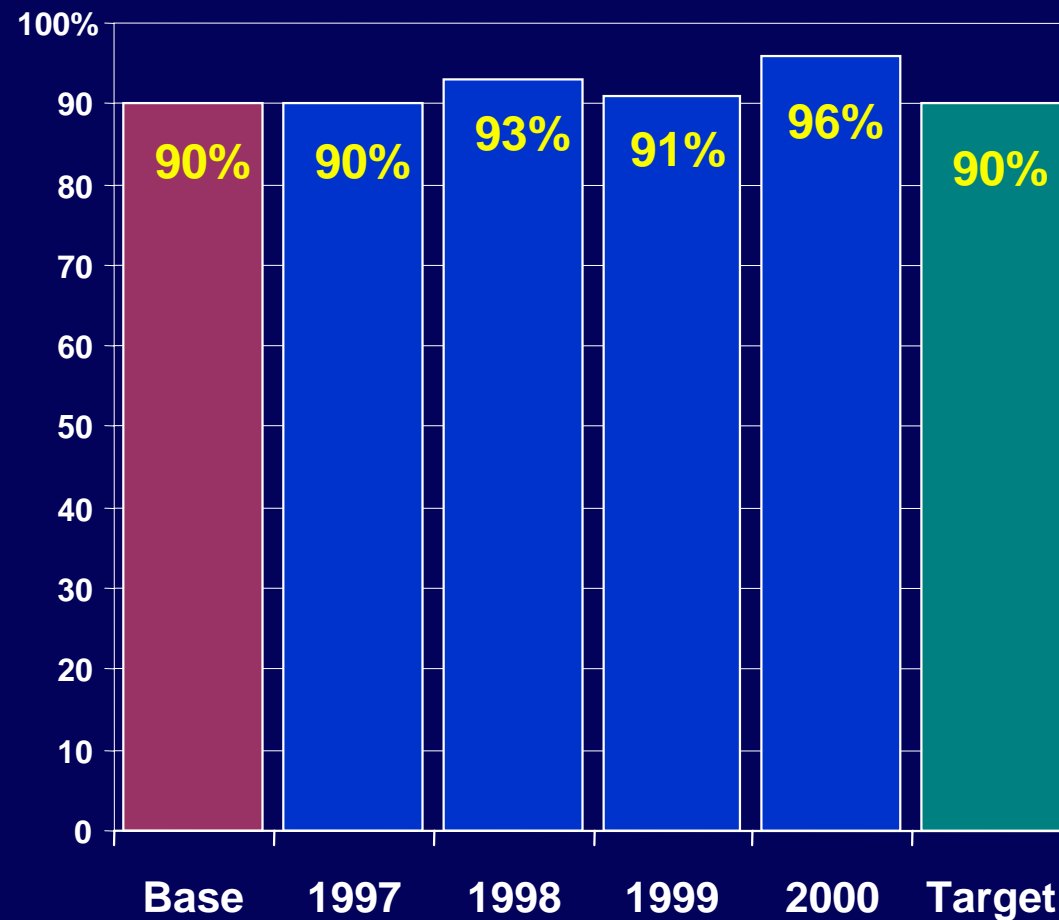
Cost per DMV Customer Served

63



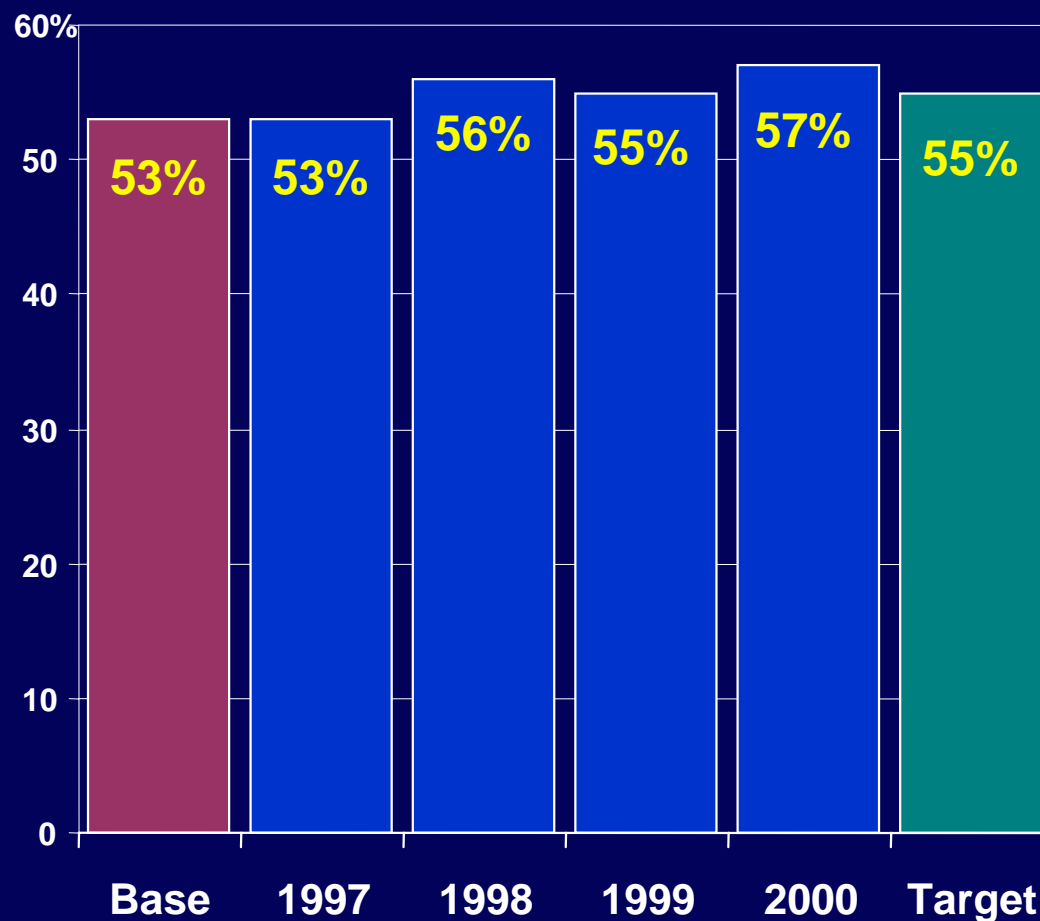
Percent DMV Customer Satisfaction

64



Percent DMV Customers Using Mail or Electronic Means for Renewal Transactions

65



Conclusions

66

- The performance measurement system developed by the Department of Planning and Budget is an innovative approach to capturing performance measurement and program evaluation information. However, the system does not yet meaningfully integrate this information into a system of performance budgeting.
- The incremental process followed by DPB in developing a system of performance measurement has resulted in comprehensive infrastructure for capturing and displaying performance measurement information.
- Greater involvement by agency managers and high-level decision makers is needed to make the system a more effective management and budgeting tool.

Conclusions

(Continued)

67

- Overall, case study performance measures in *Virginia Results* appear to reflect reasonable agency objectives. However, in some cases the objectives need to be reviewed to better reflect official State plans and current levels of attainment.
- Personnel working with programs represented by performance measures are not always aware of them. This raises questions about the role that measures may really play in focusing agency performance.
- Consideration should be given to developing performance measures that relate to new initiatives or mandates.

Recommendations

68

- The Governor and the Department of Planning and Budget should encourage agencies that consistently attain or exceed their performance targets to periodically set higher targets.
- Agencies should provide a period of notice prior to removing performance measures from *Virginia Results*.
- The General Assembly may wish to identify agency performance objectives and targets that reflect legislative priorities. JLARC can monitor agency efforts to set and achieve such objectives.